

Message Text

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ORIGIN OPIC-06

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DRAFTED BY OPIC/ID/MEA:CBAZARIAN:YKR

APPROVED BY EB/IFD/OIA:RJSMITH

OPIC/ID/MEA:CMIDDLETON

EB/IFD/OIA:DHSTEBBING

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FM SECSTATE WASHDC

TO AMEMBASSY KUWAIT

LIMITED OFFICIAL USE STATE 220386

E.O. 11652: N/A

TAGS: EINV

SUBJECT: SURETY PERFORMANCE BONDS ON CONSTRUCTION
CONTRACTS

REF: KUWAIT 04177

ATTN: LOUIS MCDONALD

1. CARL BAZARIAN OF OPIC WOULD SUGGEST THAT A PARTICIPATING SURETY UNDER A (KMPW) CONTRACT BE SUBJECT TO THE DEPARTMENT OF TREASURY'S LIST ENTITLED QUOTE SURETY COMPANIES ACCEPTABLE ON FEDERAL BONDS UNQUOTE CIRCULAR 570.

2. AS SUGGESTED BY INDUSTRY/GOVERNMENT TEAM MEETINGS IN KUWAIT DURING FEBRUARY 1976, THE TREASURY LIST IS A USEFUL GUIDE ON THE UNDERWRITING CAPABILITY OF INDIVIDUAL INSURANCE COMPANIES TO PROVIDE SURETY BONDS. THE INFORMATION ON THE TOP TWENTY COMPANIES ON THE LIST REVEALS THAT MANY OF

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THESE COMPANIES HAVE ASSETS IN EXCESS OF 1,000,000,000

U.S. DOLLARS AND ARE FINANCIALLY COMPARABLE TO THE LEADING
BANKING INSTITUTIONS OF THE WORLD. MANY OF THESE

COMPANIES DO PROVIDE OVERSEAS BONDS THROUGHOUT THE WORLD.

3. WITH REGARD TO THE TREASURY LIST, SINCE 1910, TREASURY
HAS ISSUED A LIST OF INSURANCE COMPANIES AUTHORIZED AS
ACCEPTABLE SURETIES ON FEDERAL BONDS. TREASURY DETERMINES
THE MAXIMUM RISK EACH COMPANY ON THE LIST SHOULD UNDER-
WRITE AND ASSIGNS UNDERWRITING LIMITATIONS PER EACH TRANS-
ACTION. THE FORMULATION OF THE UNDERWRITING LIMITATION IS
BASED UPON 10 PERCENT OF EACH COMPANY'S PAID-IN CAPITAL AND
SURPLUS AS DETERMINED BY THE TREASURY. PAID-IN CAPITAL
AND SURPLUS IS DEFINED AS QUOTE ASSET VALUE FREE AND
CLEAR OF ALL OBLIGATIONS UNQUOTE (WHICH IS THE SAME AS
NET WORTH OR STOCKHOLDERS' EQUITY). IN INSURANCE TERMS A
COMPANY'S NET WORTH IS CALLED POLICYHOLDERS' SURPLUS.

4. TREASURY JUDGES THE QUALITY AND LIQUIDITY OF ASSETS
THE AMOUNT OF RESERVES TO PAY FUTURE LOSSES, ETC., IN
ORDER TO BE SATISFIED THAT EACH COMPANY ON THE LIST CAN
KEEP AND PERFORM ITS CONTRACTS. SOMETIMES (ALTHOUGH IN-
FREQUENTLY) TREASURY WILL REDUCE A COMPANY'S ADMISSIBLE
NET WORTH BY AS MUCH AS 25 PERCENT OF THE AMOUNT ADMITTED
BY THE COMPANY'S DOMICILIARY STATE. THEREFORE, SOME OF
THE UNDERWRITING LIMITATIONS ASSIGNED BY THE TREASURY ARE
FORMULATED ON A SUBSTANTIALLY REDUCED BASE THAN A BASE
ESTABLISHED BY A STATE INSURANCE AUTHORITY.

5. WE BELIEVE THAT EMBASSY HAS COPIES OF TREASURY REQUEST
AND WE WOULD RECOMMEND THAT YOU PROPOSE TO THE KMPW THAT A
PARTICIPATING U. S. SURETY COMPANY WOULD BE SUBJECT TO THE
STRINGENT UNDERWRITING LIMITATION OF TREASURY CIRCULAR
570 QUOTE LIST OF SURETY COMPANIES ACCEPTABLE ON FEDERAL
BONDS UNQUOTE. DECONTROL AFTER 9/3/77. ROBINSON

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